from overseas. In the past few decades, many countries have had to endure extreme pain when their international borrowings became too much: Argentina in 2001, Mexico in 1982, Russia in 1998, Thailand in 1997, Iceland in 2008, Greece in 2010. As a result, their populations suffered a severe drop in standards of living.

However, unlike these other countries, America can fund its twin deficits and pay for its excess expenditures by printing Treasury bills. The US Treasury only has to pay for the cost of paper. In return for handing out pieces of paper, the rest of the world sends real money (hard-earned cash) to buy the US Treasury bills. For example, Chinese workers have to work hard to produce low-cost goods to export to the rest of the world. These exports receive hard-earned dollars, which the Chinese government converts to yuan to pay to the workers. What does the Chinese government do with these hard-earned dollars? It uses many of these to buy US Treasury bills. The US Treasury then uses these dollars from China to pay for excess government expenditures. For the record, the largest purchasers of US Treasuries are China ($1.113 trillion), Japan ($1.064 trillion), Brazil ($306.7 billion), the United Kingdom ($300.8 billion), and Ireland ($269.7 billion).[*] As a result of this, when the US government cannot pay for the twin deficits, it can simply print money (i.e., paper) to pay for these excess expenditures. And why does the rest of the world buy these pieces of paper (US dollars)? One key reason is that most of world trade is carried out in US dollars. Hence, when China buys Argentinian beef, it pays Argentina with US dollars. When Argentina buys Chinese cell phones, it pays with US dollars. This makes the US dollar indispensable for the global economy. Hence, it functions as the global reserve currency.

Many American economists are aware of the enormous benefits that American people get from the US dollar serving as the global reserve currency. In June 2019, Ruchir Sharma wrote: “Reserve currency status had long been a perk of imperial might—and an economic elixir. By generating a steady flow of customers who want to hold the currency, often in the form of government bonds, it allows the privileged country to borrow cheaply abroad and fund a lifestyle well beyond its means.” Sharma adds: “And for nearly a century now this privilege has helped to keep US interest rates low, making it possible for Americans to buy cars and homes and, in recent decades, run large government deficits that they could not otherwise afford.” There are two key phrases in the quotes above. America can afford to “fund a lifestyle well beyond its means” and “run large government deficits that they could not otherwise afford.”

Sharma wrote his article in response to suggestions by Donald Trump and Elizabeth Warren that America should consider devaluing its currency to become more competitive. He warned that this would be very dangerous because "America is not an emerging country. It's an unrivalled financial superpower, a position built in large part on hard-won trust in the dollar, which is an enduring source of American power and prosperity."

The key word that Sharma has used is *trust*. The world has been happy to use the US dollar as the global reserve currency because they trusted the US government to make the right decisions on the US dollar that would take into consideration the economic interests not only of the 330 million American people but also of the remaining 7.2 billion people outside America who also rely on the US dollar to fund their international transactions. This trust is a key pillar of the resilience of the US dollar as a global reserve currency.

In recent decades, this trust has begun to erode because America has occasionally used the privilege of having the global reserve currency as a weapon against other countries. Here are two examples of how the US dollar has been weaponized; both involve American efforts to isolate Iran. In 2012, a British bank, Standard Chartered, was fined $340 million because it had used the US dollar to finance a trade transaction with Iran. This fine clearly represented an extraterritorial application of American domestic laws. As a British bank, Standard Chartered had broken no British laws. Neither had it violated any sanctions imposed by the UN Security Council. Yet, the dominance of the US dollar in international financial transactions enabled America to punish a British firm for breaking American laws—a clear weaponization of the US dollar.[*]

In recent years, the US government has imposed even heftier fines on non-American banks for working with countries like Iran, Cuba, and Sudan. For example, BNP Paribas SA was fined US$8.9 billion in 2015. As a result, many countries that had trusted the US dollar now find it to be a double-edged sword, cutting the fingers of whoever holds it. This creates an obvious incentive to reduce dependence on the US dollar, which could eventually precipitate a fall in global demand for US dollars, crippling the United States' ability to finance its twin deficits. Donald Trump has recently created an additional incentive for moving away from the US dollar through his calls to devalue the dollar. As the former French president Valéry Giscard d'Estaing said, this is an "exorbitant privilege" that Americans enjoy. Americans should be grateful that the rest of the world is funding this exorbitant privilege. Trump is unappreciative. He is punishing the countries that are conferring this privilege to America. The rest of

the world is genuinely bewildered, wondering why America is taking steps that could in the long run jeopardize this privilege.

The most dangerous thing that Donald Trump has done is to create a strong incentive for other countries to stop relying on the US dollar as the dominant global reserve currency. In particular, by pulling out of the Joint Comprehensive Plan of Action (JCPOA), which six countries, namely America, the UK, France, Germany, Russia, China, and Iran, had agreed to, he has forced the other participating countries to find an alternative way of trading with Iran. Here it is important to mention a critical point of international law. Many Americans support Trump's struggle against Iran because it is seen as a struggle between good (America) and evil (Iran). However, in walking away from the JCPOA, it is America that is violating international law.

The JCPOA was agreed on by Iran and the five permanent members of the UN plus Germany on July 14, 2015, and endorsed by UN Security Council Resolution 2231, adopted on July 20, 2015.[*] When an agreement is endorsed by the UN Security Council, it becomes a binding agreement that all states have to comply with. Indeed, as a permanent member of the UN Security Council, America is under an even greater obligation to abide by its rules as it has always insisted that all countries must abide by the binding decisions of the UN Security Council.

The Trump administration didn't just walk away from the JCPOA. It also announced that it would impose sanctions on any country that continued to trade with Iran on the basis of these agreements. The "legal" route that the Trump administration took to punish countries for trading with Iran was by sanctioning their use of the US dollar in these cross-border payments.

This created a legal dilemma for the other five signatories of the Iran agreement. Under international law, their companies were allowed to trade with Iran. However, if the companies trading with Iran used the US dollar to do so, these companies would have had to pay massive fines in American courts. To solve this legal dilemma, France, Germany, and the UK decided to set up the Instrument in Support of Trade Exchanges (INSTEX), "a new channel for non-dollar trade with Iran to avert U.S. sanctions."[*] In reality, INSTEX would not have any major effect on trade with Iran: most major global companies do more trade with America than with Iran and would not dare to go against the Trump administration, which could be harsh and punitive toward any companies dealing with Iran.

However, in symbolic terms, INSTEX represents a huge shift in the